

SPECIAL NOTICE

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Cash Basis Reporting Method

The Department of Revenue recently changed Rule 199 (WAC 458-20-199) to simplify the reporting procedure for many small businesses. This change is effective June 30, 1996. The new procedure generally affects businesses in the service industry. The change has two significant benefits: first, businesses which report on a cash basis are spared the economic burden of paying state business and occupation taxes on sales prior to receiving payment for the goods or services they provide. Second, it provides consistency in the methods used to report state and federal taxes.

The new procedure presumes that the records of the business are maintained on a cash basis if federal tax returns are prepared using the cash basis accounting method, regardless of the entries in the general ledger. The change means that even if the business makes sales on account, the sales are not recognized as income for state B & O tax reporting until the cash is actually received. This will make state tax reporting more consistent with federal tax reporting.

Previously, Rule 199 stated businesses could report their business and occupation (B&O) tax and retail sales tax on a cash basis only if the business records were “generally maintained” on a cash basis. If the records were not “generally maintained” on a cash basis, the accrual method was required. Because “generally maintained” can include some records prepared on a cash basis along with other records kept on an accrual basis, determining the correct method for reporting was often confusing.

The revised rule change clarifies this situation. From now on, those businesses filing their federal tax returns on a cash basis, can report the income from sales on account on their Combined Excise Tax Returns when the payment is received.

If you have questions about how this rule change may affect your business, please call the Department of Revenue’s Telephone Information Center. The toll free number is 1-800-647-7706.

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